TRAC's 2000 Form 990-EZ lists a post office box in Washington. DC as its mailing address, in response to Schedule A. Part 111 line 2. TRAC's Form 990-EZ states that

> DURING THE YEAR. TELECOMMUNICATIONS RESEARCH & ACTION CENTER PURCHASED GOODS AND SERVICES FROM AN AFFILIATED TAXABLE ORGANIZATION NAMED ISSUE DYNAMICS. INC. ISSUE DYNAMICS. INC. PROVIDED MANAGEMENT SERVICES AS WELL AS OVERHEAD COSTS FOR FEES TO TELECOMMUNI-CATIONS ACTION & RESEARCH CENTER [sic].

According to the Issue Dynamics. Inc: ("IDI") web site. IDI is a public relations firm with offices at 919 18th Street. NW. Washington. DC 20006. The IDI web site lists the firm's clients. a list that includes *all* of the regional Bells and their principal trade and lobbying organization. the United States Telephone Association ("USTA").[5] In describing its various services. IDI states that it has "over three decades of hands-on experience running associations and not-for-profit organizations." and that "Issue Dynamics Inc. offers clients a comprehensive package of services for association and not-for-profit management. including Database management: Membership recruitment: Direct mail: Production of newsletters. press releases. annual reports and other publications: Coordination of national conferences. seminars and workshops: Advisory committee management: Legal representation and lobbying; [and] Internet services.'[6] IDI states that it "currently provides complete management services for: Alliance for Public Technology (APT) [and] Telecommunications Research and Action Center (TRAC)."[7] In addition. TRAC and IDI appear to share employees: the Chairman of the board of directors of

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5 http://www.idi.net/about/clients.vtml. accessed 8/12/02. Qwest is no longer a member of USTA. but is listed on the IDI website as a client of IDI.

6 http://www.idi.net/manage/. accessed 8/12/02.

7 *Id*

TRAC is Samuel A. Simon. and he is also the President of Issue Dynamics. Inc.[8] Ms. Kate Dean serves as both a Staff Associate at **TRAC** and a Research Associate for IDI.[9]

TRAC's IRS Form 990-EZ for the fiscal year **2000** identifies Total Revenues of **$28.420.** consisting of $643 from "Contributions. gifts. grants. and similar amounts received." $27.719 in "Program service revenue." and **$58** in "Investment income." Total expenses are shown as **S49.781.** producing an operating deficit of $21.362. TRAC's **"expenses"** include **$31.500** in "Management Fees" presumably paid to IDI. TRAC's *net* assets as of the end of the 2000 fiscal year were a ***negative*** **$85.442.** funded entirely by "Accounts Payable" of $102.145. The tax return does not disclose to whom the $85.442 is owed. Finally, although the street address at which TRAC's books are maintained (line **42** of the return) has been redacted. the telephone number that is shown **(202-263-2900)** is listed on IDI's web site as IDI's phone number.[10]

In addition. the "affiliation" between TRAC and IDI is also demonstrated by the fact that. when Dr. Lee Selwyn. President of Economics and Technology. Inc.. ordered a copy of the TRAC New York stud? from *TRAC*. the "merchant" that posted the **$4** charge for the study to his VISA card was identified as "Issue Dynamics Inc."

It seems highly unlikely that TRAC could have undertaken all of its various "studies" and other activities for a total operating budget (net of "management fees") of only about $18.000. It

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8 http://www.idi.net/about/staff and http://www.trac.org/about/index.html. accessed 9/26/02

9 http://www.idi.net/about/staff and http://trac.policy.net/proactive/newsroom/release.vtml?id=19240. accessed 9/26/02. There may be other shared employees as well, but unlike IDI. TRAC does not specifically provide a list of employees.

10 http://www.idi.net/flash.vtml. accessed **8/12/02.**

is equally unlikely that true creditors would have allowed an entity with the kind of financials that are shown on the IRS return the ability to increase its payables debt by some $34,000 over the 2000 fiscal year. Not coincidentally, that increase of $34,316 in accounts payable is fairly close to the $31,500 "management fee" that TRAC identifies as having paid, presumably to IDI. It is not known, of course, whether that debt was subsequently forgiven by IDI or otherwise settled, but inasmuch as nothing in the IDI web site would give the impression that IDI is in the business of actually supporting financially any of the not-for-profit organizations that it "runs," there is certainly reason to believe that some (or all) of TRAC's activities are being supported in some manner by its Issue Dynamics, Inc. "affiliate" and/or by IDI's clients. Funneling support from clients to TRAC would be consistent with the kinds of services that IDI describes on its web site, such as "Strategies for leveraging policy decision for maximum political benefit," "Development of proactive consumer education initiatives with strategic stakeholders," and "Creation and management of consumer advisory panels."[11] In view of the RBOCs' client relationship with IDI and IDI's "affiliation" with and "management" of TRAC, it is clear that TRAC is hardly the disinterested source as it is portrayed by the RBOCs.

RBOCs such as Verizon have issued numerous press releases relying on TRAC's conclusions to claim that consumers will experience millions of dollars of benefit in the first year after it gains Section 271 approval. Other RBOCs, like Qwest, have actually included TRAC studies in their 271 applications.[12] However, the benefits calculated by TRAC are illusory.

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11. http://www.idi.net/caffairs/, accessed 8/12/02

12. *See*, for example, *In the Matter of a Commission Investigation into Qwest's Compliance with Section 271(d)(3)(C) of the Telecommunications Act of 1996 that the Requested Authorization is Consistent with the Public Interest, Convenience and Necessity*, Minnesota PUC Docket No. P-421/CI-01-1373, OAH Docket No. 7-2500-24487-2, *Affidavit of David L. Teitzel on behalf of Qwest Corporation*, December 10, 2001.

Indeed. New Hampshire Consumer Advocate Michael Holmes recently called them "horse feathers." The February 1.2002 edition of the Concord. New Hampshire. *Concord Monitor* quoted Mr. Holmes describing the studies as

> _. biased because TRAC Chairman Samuel Simon founded another organization that has performed consulting work for Verizon and other telecommunications companies. "Sam Simon works for Verizon through a couple of organizations." he said. The primary group in question is Issues Dynamic Inc.. a Washington firm that specializes in public relations and management services. The consulting firm claims that in 1993 it launched the Internet's first corporate affairs Web site: that corporation was Bell Atlantic. which later merged with GTE to form Verizon."

The Concord *Monitor* article went on to report that Mr. Simon defends the objectivity of his stud!. but quoted him as acknowledging that "I don't hold myself out as a full-time consumer advocate." and that "I disclose all my relationships so there is no misrepresentation. I do work for a lot of different organizations."[13]

Due to faulty methodolog?. the TRAC studies generate highly inflated and utterly unrealistic estimates of the economic benefits to consumers from Verizon DC's entry into the interLATA long distance market.

Separate and apan from its author's dubious credibility. the TRAC "studies" themselves distort the relationship between long distance prices being charged by RBOCs vis-a-vis those being offered by the non-BOC long distance providers. and as a result portrays as "benefits" price "differences" that do not in fact exist. Specifically. and as I shall show. TRAC's study results are based upon a highly unfair. distoned. and inconsistent comparison of RBOC and IXC ion; distance pricing.

13. James Vazins. "Study favoring Verizon called into question." *Concord Monitor*, February 1. 2002.

Both the theory and the methodology of the TRAC studies are seriously flawed. because TRAC -'compares" *specific* RBOC long distance pricing plans with ***averages*** of prices being offered by other non-BOC carriers. many or even most of which might themselves not be the best choice for a particular consumer. The correct comparison — and one that TRAC did not perform — would be to compare the best RBOC pricing plan with the best non-RBOC plan applicable to the particular customer's calling volume and other attributes. Instead. what TRAC did was to determine a "range" of savings based upon "low-end and "high-end estimates of what customers might have been paying to carriers other than the RBOC.

TRAC's "low-end" estimate compares the best RBOC long distance rate for consumers with *assumptions* made by TRAC (and apparently without any specific evidentiary basis) regarding the panicular calling plans that TRAC had assumed that residential customers likely subscribed to before switching to an RBOC for long distance service. In so doing. TRAC was not comparing "best" with "best." but was instead relating the RBOC's "best" with a composite of various other carrier offerings.

TRAC's so-called "high-end estimate is derived from a "comparison" of the *best* RBOC long distance plan with *industry average* rates." These ***industry average*** rates were determined by calculating a simple arithmetic average of the prices being charged by the "highest priced competitor" with those being charged by the "lowest priced competitor" within each of the service "baskets" examined by TRAC. This approach virtually ***guarantees*** erroneous and overstated results. since clearly not all rate plans for all companies are intended or designed to be

14 Telecommunications Research and Action Center. "Fifteen Months After 271 Relief: A Study of Telephone Competition in New York." April 25.2001 (***"TRAC New York Study"***), at Table 1

attractive to all customers. Because individual customers exhibit decidedly varying calling habits. there will inevitably be **some** extremely high competitive rates in each calling basket that are essentially irrelevant for any customer whose calling habits would clearly not justify acceptance of such a plan.

In order to provide an example. it is necessary **to** refer to an earlier TRAC study of the alleged consumer benefits associated with Verizon's entry into the interLATA market in New Yorh. in which the underlying details for TRAC's calculations are provided. **The** TRAC New York study provides the best example to explore **TRAC's** methodology. as subsequent **TRAC** studies rely upon the identical study methodology.[15]

In the New York study. TRAC's Basket 18 includes a highest priced competitor at $349.37 and a lowest priced competitor at $101.27. When averaged. the non-Verizon price-out for this basket is S225.32. which TRAC then compares with the "lowest priced Verizon" plan at $138.42 On the basis of this "comparison." TRAC ascribes a net "savings" of **$86.90 (*i.e.*,** $225.32 minus 5138.12) for customers in this basket. which it then *causally attributes* to Verizon's long distance entry. Of course. that "average savings" would arise only if the distribution of customers across the full range of prices in the basket were uniform, *i.e.*, where the customer is assumed to be as likely to purchase the **most** expensive ***(i.e.*,** the **$349.37)** service as thr least expensive (*i.e.*, the $101.27) service. This *critical* underpinning of the TRAC methodology is obviously absurd. because customers are far more likely to select providers and plans at thr low end of the range than at its mid-point. Thus. TRAC is comparing the lowest priced Verizon plan with an *average*, inflated by pricing plans that would never have even been

15 See. for example. Telecommunications Research and Action Center, "Projecting Residential Savings in Maryland's Telephone Market." June 2002. at **4** and **6.**

considered. let alone adopted. by customers. If the Verizon plan **were** compared with the ***lowest*** priced ***competing service*** instead of the ***average*** of the highest and lowest. TRAC predicts that the New York savings would actually have been a ***negative $1.368.500***.[16]

Verizon's pricing plans. when appropriately applied to consumers based upon their actual calling requirements and assuming reasonably rational and informed customer behavior. indicate that Verizon's entry into the long distance market provides consumers with ***no competitive gain*** whomever. But by comparing the ***industry average*** pricing plan to the ***best*** pricing plan being offered by Verizon. TRAC ***virtually guarantees*** that Verizon's offerings will portray -'significant savings." Yet if the same TRAC methodology were used to compare a consumer's most beneficial AT&T. MCI or Sprint rate plan with that same "industry average." the IXC services would present the same — or even greater — "consumer benefit" as TRAC ascribes **solely** to Verizon's offerings

As mrntioned above. according to TRAC. the New York study and subsequent studies use the exact same methodolog!,. However. for those other studies. TRAC's calculations have been greatly compressed. **so** that the averaging I just described is not shown (although it still occurs) Another modification in formatting since the time of the New York study has been the elimination of the "basket" designation (baskets 1 through 18). in favor of a descriptive name (e.g. "Heavy Night & Weekend 180 Calls"). However. there are still 18 groupings. which presumably correspond to the 18 baskets identified in the original New York study.

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16 *TRAC New York Study*. at Table I. In the above example for Basket 18, the result **for** that basket would have been a negative $37.15. ***i.e.***. the Verizon "best" pricing plan is actually 537.15 *above* the lowest priced **IXC** plan.

TRAC's "low-end estimate" compares the most advantageous Verizon plan with the moa advantageous plan being offered by a simple arithmetic average of the corresponding AT&T and MCI offerings (rather than the entire IXC industry) specifically. TRAC compares Verizon's lowest price plan for a particular customer group with the lowest rates for MCI and AT&T for this customer group.[17] Under this approach. TRAC ignores entirely the pricing plans being offered by all other IXCs. many of which have more favorable rates for some customers than either MCI or AT&T. However. even after narrowing a consumer's choices to AT&T. MCI or Verizon. TRAC further ensures that its "savings" calculation is further inflated by then averaging the AT&T and MCI "savings." By performing this arithmetic sleight-of-hand. "savings" from Verizon's entry jump from $21-million (comparing Verizon rates to AT&T rates for all customers) to 679-million (when averaging in MCI's higher rates).[18] In addition. later applications of this same study contain the notation that "[t]he predictions of savings drop when TRAC assumes that the consumers affected were more likely to be customers of AT&T or WorldCom as those consumers were most likely already subscribers to a cost-efficient calling plan."[19]

In addition. it appears that for the numbers in both the "low-end estimate" and the "high-end estimate." TRAC compares the *optimal* Verizon long distance plan with a less-than-optimal plan being oflered by a *composite* Verizon competitor. Finally. there is little or no indication that Verizon actually markets its plans so as to realize the hypothetical savings cited by TRAC. If Verizon markets and sells its long distance service to in-bound local service customers using

17. *TRAC New York Study*. at Table 2

18. *Id*

19. "Projected Residential Consumer Telephone Savings: An Investigation of Expected Savings One Year After RBOC Entry Into Long-Distance Markets in Florida, Illinois. Georgia and Pennsylvania." at 11.

Verizon BOC local service representatives. it is much more likely that those individuals will be given a "hierarch!" of calling plans to "recommend." offering a different service plan option (such as a plan with no monthly fee) only when a customer rejects the plan originally offered. Any long distance carrier would be able to use the same bogus TRAC methodology to claim millions of dollars in savings for consumers. Such claims. therefore. hardly constitute a consumer benefit arising from a BOC's entry into the long distance market.

In fact. one could apply the TRAC methodology to *any* one carrier. comparing its *best* prices with the average of its rivals' prices. and "conclude" that consumers would save money by switching to that carrier. This entirely unremarkable result can hardly be afforded any weight in demonstrating that a BOC's entry into a particular interLATA market would produce *any* net public benefit or otherwise be in the public interest.

Before the

PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

In the Matter *of* Review by *the*	)	**Formal Case No. 1011**
Commission Into Verizon DC's	)	
Compliance with the Conditions *of* 47	)	
U.S.C. §271(c)	)	

Affidavit and Exhibits of
the Office of People's Counsel
of the District of Columbia
Volume 1 of 1

SCOTT C. LUNDQUIST **EXHIBIT OPC (B)**

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September 30,2002

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Before the

PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

In the Matter of the Review by the Commission Into Verizon DC's Compliance with the Conditions of 47 U.S.C. §271(c)	))))	Formal Case No. 1011

Affidavit and Exhibits of
the Office of People's Counsel
of the District of Columbia
Volume 1 of /

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PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

In the Matter of the Review by the Commission Into Verizon DC's Compliance with the conditions of 47 U.S.C. §271(c)	))))	**Formal Case No. 1011**

AFFIDAVIT OF SCOTT C. LUNDQUIST

Inrroduction

Scott C Lundquist, of lawful age, declares and says as follows:

1 My name is Scott C. Lundquist; I am a Vice President of Economics and Technology, Inc ("ETI"), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. ETI is a research and consulting firm specializing in telecommunications and public utility regulations and public policy. I have prepared a statement of Qualifications whch is annexed hereto as Attachment 1 and is made a part hereof. I have served as an expert witness on telecommunications matters before state public utility commissions on numerous occasions since 1993, including appearances in Alabama, California,

Connecticut. Hawaii. Illinois, Maryland Minnesota, Nevada, New Jersey. Ohio. Rhode Island **Texas.** Washington state, and Wisconsin. **Many** of these cases have **required** that I analyze the economics **of** local exchange carriers' networks and services, relative to **such** issues **as** the restructuring of access service tariffs. the development of cost-based rates **for** unbundled **network** rate elements **("UNEs").** and the arbitration of interconnection **agreements.** Earlier this **year,** I offered **expert** testimony on two occasions to the **Minnesora** Public **Utilities** Commission concerning Qwest's compliance with the Section 271(c)(2)(B) checklist. **This** is my first appearance **before** the Public Service Commission of the Dismct of Columbia ("DC PSC" or "Commission").

2 I have been **asked** by the Office **of** People's Counsel of the District of Columbia ("OPC" or "the Office") to review, analyze. and evaluate Verizon **Washington, D.C.** Inc.'s ("Verizon DC's") compliance with the conditions of 47 **U.S.C.** §271(c)(2)(B), the so-called "fourteen point Competitive Checklist" OPC intends that my testimony assist the Commission in determining whether Verizon DC has made a demonstration that it is in full compliance with the Checklist items, and if **not,** to recommend what additional **steps** Verizon DC **or** the Commission **must take** in order **to** bring **about full** compliance

Summary

3. As set forth in more detail below, in the course of my review of Verizon DC's filing, I have determined that the Company falls short of full Checklist compliance in a number of respects. These can be summarized as follows:

To date, the Commission has not established permanent UNE rates for Verizon DC that adhere to the "Total Element Long Run Incremental Cost" ("TELRIC") methodology prescribed by the FCC. The "interim" UNE rates that appear in Verizon DC's interconnection agreements with competitive local exchange carriers ("CLECs") were established more than five years ago. Therefore, they do not reflect the Company's forward-looking costs, as they have not been adjusted to account for the declining cost trends that Venzon DC has experienced over that period. The absence of finalized, TELRIC-based rates poses a barrier to competitive entry and precludes Verizon DC from complying at this time with Checklist Item 2.

While Venzon DC's showing of operations support systems ("OSS") compliance relies heavily on prior FCC approvals in other Verizon states, the Company has deployed a new wholesale billing system ExpressTRAK, that has never been examined, let alone approved by the FCC. Moreover, Verizon DC has withdrawn the only metrics that address billing performance, without proposing any substitute. Before finding Verizon

DC's OSS to be compliant with Checklist Item 2. the Commission should require the Company to affirmatively demonstrate that ExpressTRAK is functioning with a minimum of errors and is rendering wholesale bills m an accurate manner In addition, the Commission should work with Venzon DC and other interested parties to devise alternative metrics for wholesale billing performance to ensure that CLECs obtain timely and accurate wholesale bills in the future.

Venzon DC's reported installation intervals for non-dispatch orders (metrics PR-2 and PR-3) are significantly longer for CLEC orders than for its own retail ordm, and thus, on their face are discriminatory Based on the data provided (whch spanned the months February through April 2002), one cannot conclude that Verizon DC is compliant with Checklist Items 2 and 4 Venzon DC's performance in this area should be closely scrutinized by the Comssion to ensure that the Company is not discriminating against CLECs At a minimum, the Commission should require Verizon DC to submit memc data for more recent months in order to determine whether there is a persistent pattern of non-compliance in this area

Verizon DC's construction policy and practices appears to discriminate against CLECs in the provisioning of DS1/DS3 unbundled loops and interoffice transport when facilities are not immediately available Venzon DC admits that it applies unequal and discriminatory treatment to DS1 and DS3 UNE loop orders from CLECs. relative to DS1 and DS3 loop facilities supplied to meet service requests from Verizon's own retail customers, when facilities to serve such requests are not immediately available. Whether or not the Company's policies with respect to provisioning of DS1/DS3 UNE loops when facilities are not immediately available would otherwise comply with federal and state law, that unequal and discriminatory conduct clearly violates the FCC's non-discriminatory standard for provision of UNEs.

VERIZON DC'S SECTION 271 CHECKLIST COMPLIANCE

Checklist Item 2: Verizon DC's **five-year-old "interim" UNE rates are not** TELRIC compliant and preclude Verizon DC from **complying with Checklist** Item **2 at this time.**

4. Checklist Item 2 states that ILECs **must offer** *'hondiscriminaron access lo network elements in accordance with the requirements of sections 251(c)(3) and* 252 *(d)(1)."*[1] The pricing standard under section 252 (d)(1) of the 1996 Act ***can*** be satisfied if, and **only** if, UNE rates comply with the FCC's "Total Element **Long Run** Incremental Cost" **('TELRIC')** methodology.[2] However, the **FCC** has repeatedly determined in **a** number of Section 271 proceedings that it will not conduct a *de novo* review of a state's pricing determinations and will reject a BOC petition for Section 271 authority on these grounds **only** if "basic TELRIC principles **are** violated or the state commission ***makes*** clear errors in factual findings on matters so substantial that the end result falls outside the range that the reasonable application of TELRIC principles would **produce**."[3] Therefore. the responsibility rests **with**

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[1] See Section 271(c)(2)(B)(ii) of the *Telecommunications Act.*

[2] The Supreme Court issued a ruling in May, 2002 upholding the FCC's TELRIC pricing methodology for determining the costs of UNEs. *See. Verizon Communications, Inc. v. **FCC*****, 122** S. Ct. 1646. 1679 ***(2002).***

[3] *In the Matter of the Applicarion by Bell Atlantic New Yorkfor Authorization Under Section 271 of the Communications Act To Provide in-Region, InterLATA Service in the State of New York*, CC Docket No. 99-295, *Memorandum Opinion and Order,* **Rel. December 22,** 1999, 15 **FCC** Rcd 1953.4084 para. 244("Bell *Atlantic New York Order"); Joint Applicafion* ***bv*** *SBC Communications Inc., et al., for Provision of In-Region. InterLATA Services in Kansas and*

(continued..)

each state commission to assure competitors and (indirectly) consumers, that Unbundled Network Elements ("UNE") rates comply with the FCC's TELRIC methodology.

5. At this time, Verizon DC does not have Commission-approved permanent, TELRIC-compliant UNE rates in place in the District. The absence of permanent UNE rates impedes the development of competition and ultimately denies consumers the ability to choose alternative local service providers. As new entrants consider the cost/benefit ratios of entering local exchange markets, the existence of defined UNE rates and the level of those rates in the District vis-a-vis rates the rates in neighboring states weighs heavily on their entry decisions. Given the fragile state of the U.S. local telecommunications market (as discussed in the affidavit of Dr. Lee Selwyn, OPC EX A), the remaining viable CLECs will be more likely to seek market entry in states where their costs are known and verifiable.

6. The FCC has stated that, to be TELRIC-compliant, "prices that potential entrants pay for these [network] elements should reflect forward-looking economic costs in order to encourage

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3 (continued)
Oklahoma, CC Docket No. 00-217, *Memorandum Opinion and Order*, Rel. January 22, 2001, 16 FCC Rcd 6237, 6266 para. 59 (*"SBC Kansas/Oklahoma Order"*); *Application of Verizon New Jersey Inc., Verizon Long Distance, Verizon Enterprise Solutions, Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-Region, InterLATA Services in New Jersey*, CC Docket No. 02-189, *Memorandum Opinion and Order*, Rel. June 24, 2002, 17 FCC Rcd 12275, Appendix C para. 45 (*"Verizon New Jersey Order"*).

efficient levels of investment and entry."[4] Verizon DC has provided no evidence that the current UNE rates in effect in the District fit that description. Verizon DC's current UNE rates are not the product of a Commission cost proceeding, which is the venue in which the Commission could make such a determination. The Commission has undertaken a review of Verizon DC's UNE rates in Formal Case No. 962, but it has not yet issued a formal decision in the case. Instead, the Verizon DC UNE rates paid by CLECs today are, as the Company admits, "interim rates" that are not tariffed but are contained within the individual CLECs' interconnection agreements.[5] Strikingly, the specific "interim" UNE rate levels that Verizon DC currently charges CLECs date back ***more than five years***, to at least August 1997.[6] Until the Commission issues a final order in Formal Case No. 962 that establishes permanent UNE rates, there can be no basis to find that Verizon DC's UNE rates are TELRIC-compliant

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4 *In the Matter of Implementation of the* ***Local Competition Provisions in the*** *Telecommunications Acr of 1996* ***and Interconnection Between Local Exchange Carriers and*** *Commercial Mobile* ***Radio Service Providers.*** CC Docket Nos. 96-98 and 95-185, ***First Report*** *and Order*, Rel. August 8, 1996, 11 FCC Rcd 15499. 15844 para. 672.

5 Checklist Declaration on Behalf of Verizon Washington DC, Inc. ("Checklist Declaration"). at pan 102 As part of its 271 application, Verizon DC has included a list of UNEs and the "interim" rates available to CLECs. ***See*** Checklist Declaration. Attachment 203i. These rates are also identified in several individual and one generic interconnection agreements between CLECs and Verizon DC. *See* Checklist Declaration, Attachments 203a, 203b, 203c, 203d, 203e, 203f, 203g, and 203h.

6 The "interim rate" appear in the Pricing Schedule to the Verizon DC / AT&T interconnection Agreement on sheets dated August 22, 1997. *See* Checklist Declaration, Attachment 203a, at Attachment 1 (Pricing Schedule), pages 5-18.

Verizon DC's UNE rates have not been adjusted to account for the ongoing declines in costs for its underlying network, as has occurred in other Verizon states.

7. The rapid pace of technology improvement in the telecommunications industry has allowed ILECs such as Verizon DC to enjoy substantial productivity gains over time. Continuing technological advances in such areas as digital switching and fiber optic transport have provided ILECs with tremendous opportunities for productivity gains. This translates directly into unit cost reductions whch must be recognized when evaluating the forward-looking costs for UNEs. In the establishment of alternative regulation for the major ILECs in California, the California Public Utilities Commission concluded that.

> Ongoing deployment of a number of technological improvements such as fiber optic transmission systems. digital switches, and new signaling technologies hold a promise of continued reductions in utility costs. The introduction of new products and services and rapid demand growth for existing services are expected to increase utilization of the network and as a result lead to per-unit cost reductions.[1]

These cost and productivity trends are no less applicable to ILECs today. For many capital goods that

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[1] *In the Matter of Alternative Regulatory Frameworks for Local Exchange Carriers.; In the Matter of the Application of Pacific Bell (U 1001 C), a corporation. for authority to increase intrastate rates and charges applicable to telephone services furnished within the State of California Application of General Telephone Company of California (U 1002 C). a California corporation for authority to increase and/or restructure certain intrastate rates and charges for telephone services; And Related Matters.* California Public Utilities Commission **Decision** No. 89-10-031. *Opinion*. October 12, 1989. 1989 Cal. PUC LEXIS 576, *368

are heavily used by ILECs, such as semiconductors, computers, switching equipment, and fiber-based systems, price levels continue to fall as their capabilities *expand*. And as these advances are incorporated into Verizon DC's network, they will continue to drive its costs lower.

8. In other jurisdictions, Verizon has *already* begun to deploy next-generation switching technology into its public switched telephone network ("PSTN"), starting with two large switching centers in New Jersey and Florida. Known as "voice trunking over ATM[8] switches," ("VToA"), the technology has been described in a recent Verizon press release as "designed to provide Verizon with faster call routing, greatly expanded network capacity and the ability to deliver new services, *while* enabling a seamless transition for Verizon customers."[9] According to Verizon's VToA program manager,

> Packet-switching technology will enable Verizon to provide customers with all the high quality services they have today, and realize efficiencies which do not exist in today's circuit-switching environment.[10]

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8 "ATM" refers to Asynchronous Transfer Mode, an advanced form of packet-switching technology that uses a standardized cell size and allows dynamic allocation of bandwidth. *See* Newton H., *Newton's Telecom Dictionary*, 17th Edition: CMP Books, Gilroy California, at 63.

9 "Verizon Introduces Voice Transmission Over Packet Switching Provided by Nortel Networks." Verizon News Release, July 2, 2002. Source: http://newscenter.verizon.com/nr, downloaded 9/27/02. This press release has been reproduced in Attachment 2 to my affidavit.

10 *Id.* *See* Attachment 2 to my affidavit.

9 Technology-driven performance gains and attendant cost reductions have been even more dramatic in the area of interoffice transport. The January 2001 issue of *Scientific American* contained an article titled "The 'Triumph of the Light" by Gary Stix (a copy of which is reproduced as Attachment 3 to this testimony). The article reports that 'the number of bits a second (a measure of fiber performance) doubles every nine months for *every* dollar spent *on* the technology." In other words. the cost per unit of transport is cut by 50% *every nine months*. Put another way, over the past five years. the cost per unit of telecommunications transport has fallen *by more than 98%.* Transport costs have become far less distance-sensitive and, with the use of high-capacity fiber optics. massive amounts of capacity can be deployed at little more than the cost of more conventional transport capacity sizes.

10 In addition to technological change. a second important source of improvements in Verizon DC's cost levels for provision of UNEs is the merger activity that Verizon has undertaken in recent years. As the Comssion is aware. over the past few years, the former Bell Atlantic entered into two substantial mergers. first with NYNEX and most recently with GTE. Accordingly, Verizon has established itself as the largest local exchange carrier in the country. Verizon's switched access line count increased by nearly 20.4-million lines from year end 1997 to year-end 2001, and now serves about 36% of all switched access lines nationwide. up from 24% in 1997.[11] These increases in the

11 Federal Communications Comssion Bureau of Wireline Competition, Industry Analysis and Technology Division, *Statistics of Communications Common Carriers,* Rel. November, 1998 and (continued...)